

Message Text

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PAGE 01 STATE 106236 TOSEC 040162
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TO USDEL SECRETARY IMMEDIATE

S E C R E T STATE 106236 TOSEC 040162

EXDIS FOR THE SECRETARY FROM TARNOFF

E.O. 11652: XGDS-3

TAGS: PFOR, IR

SUBJECT: PRESIDENT FORD'S LETTER TO THE SHAH

REF: STATE 106232

FOLLOWING IS THE TEXT OF PRESIDENT FORD'S LETTER OF OCTOBER
29, 1976 MENTIONED IN REFTEL:

BEGIN TEXT: YOUR IMPERIAL MAJESTY:

YOUR DECISION NOT TO INSIST UPON AN OIL PRICE INCREASE AT
THE BALI OPEC MEETING IN MAY WAS AN ACT OF STATESMANSHIP
WHICH WAS IMPORTANT IN DETERMINING THE OUTCOME OF THAT
MEETING. AVOIDANCE OF AN OIL PRICE INCREASE IS OF SUCH
GREAT IMPORTANCE TO THE MAINTENANCE OF THE GLOBAL ECONOMIC
RECOVERY NOW UNDERWAY THAT I AM WRITING TO REQUEST YOUR
CONTINUED CONSTRUCTIVE LEADERSHIP IN ORDER TO PREVENT

SECRET

SECRET

PAGE 02 STATE 106236 TOSEC 040162

SUCH AN INCREASE.

I HAVE BEEN KEPT FULLY INFORMED OF YOUR CONCERN EARLIER
THIS YEAR THAT DECREASED OIL EXPORTS WOULD SERIOUSLY AFFECT
IRAN'S INTERNAL ECONOMIC DEVELOPMENT AND ITS ABILITY TO
FULFILL ITS ROLE IN THE REGION. I HAVE CAREFULLY NOTED,

THEREFORE, THAT THE INCREASED ECONOMIC ACTIVITY ASSOCIATED WITH RECOVERY IN A NUMBER OF OIL-IMPORTING COUNTRIES IS REDUCING THE DIFFICULTIES WHICH YOU HAD ANTICIPATED IN FINANCING IRAN'S DEVELOPMENT AND DEFENSE PLANS. I AM TOLD THAT IN THE LAST FOUR MONTHS IRANIAN CRUDE PRODUCTION HAS AVERAGED NEARLY SIX MILLION BARRELS A DAY.

IT NOW APPEARS LIKELY THAT THE OPEC COUNTRIES WILL EARN \$125 BILLION THIS YEAR FROM THEIR OIL EXPORTS, ABOUT 20 PERCENT MORE THAN IN 1975 AND MORE THAN 400 PERCENT MORE THAN THEY EARNED IN 1973 ON A SIMILAR VOLUME OF OIL EXPORTS. IN CONTRAST, OUR MOST CAREFUL ANALYSIS OF THE DOLLAR PRICES OF EXPORTS FROM THE MAJOR INDUSTRIALIZED COUNTRIES TO THE OIL PRODUCERS INDICATE THAT THESE PRICES HAVE RISEN BY ONLY 30 PERCENT SINCE MID-1973, AND ONLY 4 PERCENT OVER THE PAST YEAR. PRICES FOR OUR LARGEST EXPORT -- GRAIN -- HAVE ACTUALLY FALLEN; WHEAT PRICES AVERAGED \$150 PER TON IN THE FIRST HALF OF THIS YEAR, COMPARED TO \$200 PER TON IN 1974.

THE PROGRESS OF INDUSTRIALIZED COUNTRIES IN CONTROLLING INFLATION THROUGH MAJOR POLICY ACTIONS HAS BEEN DRAMATIC, CONSIDERING ALL CIRCUMSTANCES, WITH THE AVERAGE RATE OF INFLATION FOR MAJOR COUNTRIES NOW STANDING AT HALF THE 1974 RATE. IN THE UNITED STATES PRICES ARE RISING AT ABOUT 6 PERCENT ANNUALLY, COMPARED WITH 12 PERCENT IN 1974. IT IS LIKEWISE ENCOURAGING THAT CERTAIN OIL-IMPORTING DEVELOPING COUNTRIES HAVE BEGUN TO NARROW THEIR CURRENT ACCOUNT DEFICITS IN 1976 AS A RESULT OF

SECRET

SECRET

PAGE 03 STATE 106236 TOSEC 040162

REDUCED INFLATION, RISING EXPORTS AND IMPROVED TERMS OF TRADE. HOWEVER, THE BALANCE OF PAYMENTS SITUATION OF MANY COUNTRIES REMAINS CRITICAL, WHILE THAT OF LESS FORTUNATE ENERGY DEFICIENT DEVELOPING COUNTRIES IS TRULY DESPERATE. MANY COUNTRIES HAVE IN FACT VIRTUALLY REACHED THE END OF THEIR ABILITY TO BORROW.

MY DEEP CONCERN, WHICH I BRING TO YOUR ATTENTION IN THE SPIRIT OF OUR CLOSE RELATIONSHIP, IS THAT THE FAVORABLE TRENDS TOWARD ECONOMIC RECOVERY WILL BE REVERSED BY THE NEGATIVE INFLATIONARY AND BALANCE OF PAYMENTS EFFECTS OF A NEW INCREASE IN THE PRICE OF OIL. SEVERAL IMPORTANT INDUSTRIALIZED COUNTRIES WHICH ARE EXPERIENCING ECONOMIC DIFFICULTIES AND THE ATTENDANT DANGER OF POLITICAL INSTABILITY WOULD ENCOUNTER STILL MORE SEVERE ECONOMIC PROBLEMS IF FACED NEXT YEAR WITH A NEW OIL PRICE INCREASE.

SIMILARLY, THE ENERGY DEFICIENT DEVELOPING NATIONS WOULD SUFFER ADDITIONAL DAMAGE TO THEIR PROSPECTS FOR ECONOMIC

GROWTH AND A FURTHER EROSION OF THEIR ALREADY WEAK BORROWING ABILITY. THIS WOULD ADD MAJOR NEW STRAINS TO THE INTERNATIONAL FINANCIAL SYSTEM AND INTENSIFY PRESSURE ON BOTH INDUSTRIALIZED AND OIL-PRODUCING NATIONS TO PROVIDE BALANCE OF PAYMENTS SUPPORT. THUS, THE FRAGILE AND UNEVEN NATURE OF THE GLOBAL ECONOMIC RECOVERY REQUIRES THAT RESPONSIBLE NATIONS AVOID ACTION WHICH WOULD ENDANGER IT.

SECRETARY KISSINGER REPORTED FULLY TO ME ON HIS TALKS WITH YOU LAST AUGUST, AND NOTED YOUR CONCERN ABOUT THE NEED TO MAINTAIN CLOSE COOPERATION BETWEEN OUR TWO COUNTRIES DESPITE OPPOSITION IN CONGRESS AND OTHER CIRCLES. AS THE SECRETARY TOLD YOU, THIS ADMINISTRATION IS DETERMINED TO CONTINUE TO ASSIST YOUR NATION IN DEVELOPING ITS MILITARY ESTABLISHMENT AND MEETING ITS GOALS FOR ECONOMIC DEVELOPMENT AND TO COOPERATE WITH IRAN IN SEEKING SOLUTIONS TO MAJOR REGIONAL AND WORLDWIDE

SECRET

SECRET

PAGE 04 STATE 106236 TOSEC 040162

ECONOMIC AND POLITICAL PROBLEMS. I AM SURE YOU HAVE BEEN FULLY INFORMED OF THE ADMINISTRATION'S SUCCESSFUL RESISTANCE TO CONGRESSIONAL ATTEMPTS TO BLOCK THE SALE OF F-16 AIRCRAFT AND OTHER MILITARY EQUIPMENT TO IRAN. THE STRUGGLE WITH CERTAIN SEGMENTS OF AMERICAN OPINION ON THIS SUBJECT HAS BY NO MEANS BEEN WON, HOWEVER, AND I FEAR THAT THERE WILL BE FURTHER AND PERHAPS GREATER PRESSURES NEXT YEAR. BY WORKING TOGETHER, WE CAN OVERCOME THESE PRESSURES AND SOLIDIFY THE CLOSE RELATIONSHIP BETWEEN OUR TWO COUNTRIES. HOWEVER, IRANIAN SUPPORT FOR AN OPEC DECISION TO INCREASE THE PRICE OF OIL AT THIS TIME WOULD PLAY DIRECTLY INTO THE HANDS OF THOSE WHO HAVE BEEN ATTACKING OUR RELATIONSHIP.

THE DETERMINATION TO STRENGTHEN THE COOPERATION BETWEEN IMPORTANT PRODUCING AND CONSUMING NATIONS, WHICH YOU AND I SHARE, IS NOT UNIVERSAL. AND YET THIS COOPERATION, AND THAT BETWEEN THE DEVELOPING AND DEVELOPED WORLDS, IS A KEY ELEMENT IN THE PURSUIT OF THE GLOBAL POLITICAL AND ECONOMIC STABILITY WHICH WILL ALLOW ALL NATIONS TO ACHIEVE BETTER LIVES FOR THEIR PEOPLES. I BELIEVE THAT FURTHER PROGRESS IN A NUMBER OF AREAS OF THE NORTH-SOUTH RELATIONSHIP, INCLUDING THE OFFICIAL DEVELOPMENT ASSISTANCE MADE AVAILABLE TO THE DEVELOPING WORLD, SHOULD BE POSSIBLE IN THE COMING MONTHS. YOUR RESISTANCE TO A FURTHER INCREASE IN THE PRICE OF OIL COULD BE A SIGNIFICANT

INFLUENCE IN RESTRAINING THE GROWTH OF PRESSURES WHICH THREATEN TO DIVERT US FROM THE PATH OF POSITIVE ACHIEVEMENT IN THIS IMPORTANT AREA.

GIVEN THIS SITUATION, I BELIEVE THAT THE OUTCOME OF
THE DECEMBER OPEC MEETING WILL HAVE FAR-REACHING ECONOMIC
AND POLITICAL CONSEQUENCES. YOUR IMPERIAL MAJESTY'S
PERSONAL STATURE AND IRAN'S POSITION OF INTERNATIONAL
LEADERSHIP PROVIDE AN OPPORTUNITY FOR A HISTORICALLY
SECRET

SECRET

PAGE 05 STATE 106236 TOSEC 040162

IMPORTANT CONTRIBUTION TO POLITICAL STABILITY, ECONOMIC
PROSPERITY AND COOPERATION BENEFICIAL TO IRAN AND TO
ALL NATIONS. I THEREFORE URGE YOUR IMPERIAL MAJESTY TO
GIVE THESE CONCERNS SERIOUS AND POSITIVE CONSIDERATION
IN MAKING YOUR DECISION ON THIS MATTER.

SINCERELY, GERALD R. FORD

END TEXT CHRISTOPHER

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